

To: Small Business/Pass Through Tax Reform Working Group  
Debt, Equity, and Capital Tax Reform Working Group

From: William K. Horn, CPA

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Re: Tax Reform

I am a CPA practicing in Tax for over 35 years. My client base is predominately closely-owned business structured as S-corporations and partnerships. The complexity of the tax system has pushed it to the edge of collapse. Businesses want to do the right thing, but they just cannot keep up with the complexity driven by penalty-laden compliance regulations.

**Simplicity: The taxation of business enterprises can be unified by simply making dividends (i.e., profit distributions) tax deductible.**

- All business enterprises would be taxed similarly with one unified rate structure, regardless if they are structured as corporations, partnership, sole-proprietorships, or are public or private.
- Business profits would be taxed once, and taxed to the person who receives the cash.
  - If the business enterprise retains profits to reinvest, grow, or accumulate, then the business pays the tax.
  - If the business distributes profits – current or accumulated – the shareholder, partner, proprietor, who receives the distribution, pays the tax. NO preferential dividend rate. The distribution is taxed as ordinary income. Since business profits are only taxed once, there is no need for preferential rates.
- The business enterprise will get a deduction for the distribution, recouping the tax it previously paid on the retained profits. This results in the profit being taxed only once – by the party benefiting from the ultimate use of the profits.
- Two tax rate structures – individual and business enterprises. (Or have just one unified rate structure for all taxpayers).

Benefits –

- Eliminates the need for pass-through entities as partnerships and S-corporations. All businesses taxed the same. Will need one set of business enterprise rules.
- Eliminates the distinction of Debt versus Equity financing. Immense boost to equity markets.
- Simplification to the extreme!
  - Tax compliance will be the same for all business enterprises.
  - Individuals will not need to wait for Schedules K1 for S-corporations or partnerships.
  - Profit distribution information is readily available shortly after year ends.
  - Eliminates IRS audit function of business/owner transactions. Profits are taxed once, period.
- Combined with a business rate of say 25%, the simplicity will create an explosion of investment – domestic and foreign – in the US economy.
- Tax fairness – all profits taxed once
  - Politicizing the individual tax rates for taxing the “rich” will not pull in the profits of S-corporations, partnerships and sole-proprietorships.
  - The individual rate politics will not be truly on an individual's income.

I can provide you countless examples of how this will make business enterprise taxation simpler, fairer, and more efficient.

Questions/concerns – email me and I can respond to any comment or critique.